
INSIDERS KNOWLEDGE REPORT

from Your
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FIRST TIME HOME BUYERS

Since you've purchased this report I'll bet that you're thinking about buying your first home - good move. I also understand what you're going through. Buying your first home is a question filled, stressful, downright scary experience. Nights filled with anxiety and days filled with running all over town trying to find that - just right home, you're being pulled several different directions, and the process is as clear as mud. Don't feel singled out. These feelings are true for 90% of first time buyers (and a good deal of second time buyers too). Most of the anxiety is derived from going down a path that you have never gone down before; it's dark and you can't see the route. Since you know nothing about buying or owning a home you turn to the people who have helped in the past, your family. You're hoping to draw on their experience and knowledge for guidance. The problem is, their information is usually dated and/or biased toward what **they** think you should purchase. Now to further add to your dilemma, there is conflicting advice from different sides of the family. What you need is some good

sound advice from your trusty *Real Estate Advisor* whose main purpose is to help you sort things out.

I spent the first half of my Real Estate career selling homes to first time home buyers, just like you. I also was a first time home buyer so I have a good deal of sympathy and *Insider's* understanding. Trust me, I've dealt with cranky or "nothing is good enough for my

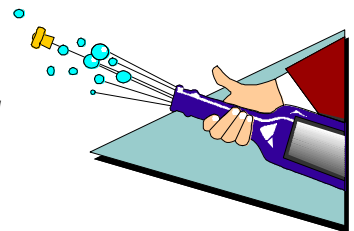
baby" parents, husbands wanting to live in the woods while the wife wanted downtown, and "if I can't find the home of my dreams then I'll wait until I have more money" sort of buyer. I learned a lot about people, the process, and various options that are possible. I've taken that knowledge and put it in this report, in a way that will make your journey down the house buying path easier. The neat part about being a home owner is a whole new world of opportunities opens up and you become better citizens. Home owners vote more often, make more money, pay more in taxes, and provide greater stability to communities than renters. Because of these positive influences, everybody encourages home ownership and numerous private and government agencies have been set up to help.

Right off the top your first question is: Should you buy a home or rent? The quick answer - BUY!!! There is absolutely no question about it. Other than Microsoft, every major corporation in the United States bases the majority of its wealth on Real Estate, that includes GM and Ford. The big car manufactures own extensive acreage for their car plants. Even their offices and proving grounds are on land that they own, if renting where such a good idea wouldn't the big companies rent instead of own?

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BENEFITS OF HOME OWNERSHIP

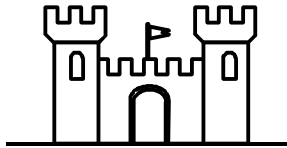


The world is divided into two big categories, haves and have-nots or if you prefer, renters and owners. Which would you rather be - someone who pays money to the haves of the world or someone who receives money? The most successful people in the world are property owners and they are setting an example for you - **follow it!**

Once you own a home you will be surprised at what comes your way just because you're an owner. For example, let's say your choices are between buying that nice new car you always wanted or a used house. If you buy the car first you reduce, if not eliminate the chances of buying the house in the same year. You have proven to the bank that you can't control your spending; you're impulsive. But if you buy the house first, your chances of turning around and buying the car a couple of weeks later is very good. Banks love lending money to people who are stable. By buying the home first you are proving to a bank that you are a stable person who is serious about making payments. Once you prove that you can make house payments, making car or boat payments are easy, and the bank knows it. Additionally, since you've become a home owner and an upstanding citizen, you have a good chance at getting a lower interest rate on the car loan. So, by buying a house first, you create **Benefit #1:** the world gets to be an easier place to live because the people with money, the banks, like you.

Benefit #2: You are the king of your castle.

Because you own the home, you can make changes at your discretion. Paint, clean, alter, improve or trash and there is no one you have to ask for permission. In addition any changes that improve the value of the property are yours to keep. I have found that when people own a home, their self image or self worth also increases - after all isn't that what it's all about, feeling good.



Benefit #3: Home appreciation.

Without a doubt, home values over the years have increased. Everyone who I have met who has owned a home for several years can claim that their home has gone up in value. Yes, there can be short term down turns in value but overall home prices increase. In my experience, home values have increased faster than inflation and if you buy a home prior to a big run up in values, I guarantee home prices will increase at a rate you will not believe. In my neck of the woods we had home prices in 1988, 1989 and a portion of 1990, increase between 10 and 36% per year. In 1998 I saw prices along the I-90 corridor increase as much

as 20% for the first three months of the year.

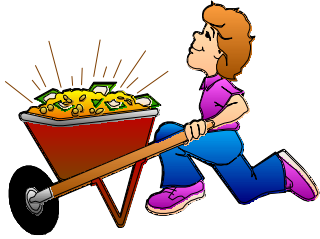
My sister lives in another state I told her to move back here and buy a home. If she had bought a \$150,000 home last year that home would be worth \$180,000 this year, a 17% increase. To put it another way, she would have made \$30,000 over the year, just because she owned a home. How much did you make by being a renter? How would you like a job that paid \$30,000 just because you lived in a home?

Benefit #4: Tax advantages.

Our government loves home owners! They love them so much that they will reduce the taxes you owe if you're a home owner. *To quote a Russian comedian "America - what a country!"* If you are a homeowner, on your tax statement, your taxable income is reduced by the amount of interest you pay to the bank, taxes you pay to the government and closing costs paid to the bank and escrow office. Example: if you are in a 23% tax bracket, and you paid \$10,000 in interest, costs and taxes, you can reduce your taxable income by \$10,000 which translates into a \$2,300 reduction in the taxes you owe the IRS. On top of this there are all sorts of other tax write-offs that you are allowed to receive. Please see your tax advisor or accountant for more accurate calculations on your savings. Suffice to say, because you own a home, the government helps by reducing your taxes - a renter can't say the same thing.

Benefit #5: Forced Savings Account.

By making payments on a mortgage the amount you owe the bank is reduced. The difference between the loan amount and your homes value is called Equity. The greater the equity the larger your "savings account." The larger your savings account or equity position, the greater your net worth. As your net worth increases so does the number of people that are willing to lend you money, and they will lend it at better and better rates. Now you know how the rich get richer.



The benefits of owning a home are tremendous. They far exceed any possible negatives. The most successful people in the world own Real Estate. As your *Real Estate Advisor*, I strongly recommend buying your first home, then follow it up with several others. Now let me tell you about the various people who are there to encourage your ownership.

WHO IS THERE TO HELP and WHY

Most lenders are under extreme pressures to lend money and get you, the first time home buyer, into a home. The pressures come from five major sources:

- 1) Federal government
- 2) State Government
- 3) Consumer groups
- 4) Your greed
- 5) Their greed! (And this is a really good one)

#1 The Federal Government which includes the President and Congress, all want to do the politically correct thing - get money into the hands of the poor. Most government agencies have classified non home owners as poor (remember the haves and have nots.) Since you don't own a home yet, you can get your hands on the money the Govt. has for home ownership. The Feds have created several agencies whose main purpose in life is to "facilitate the purchase of homes." The major agencies are FHA (Federal Housing Agency), FAHA (Farm Home Administration) and The VA (Veterans Administration.)

The most common method these agencies use to give to the poor is by encouraging and helping local banks to lend you money. So they help the local lender by offering to cover any losses caused by first time home buyers (losses occur when a home goes into foreclosure). The FHA and VA do not lend money, they guarantee the local lenders will not lose money if they lend to people with below average income, the first time

home buyer. Additionally, these agencies ask lenders to create programs where first time home buyers can buy homes using a very low down payment. The FHA will allow a 3% down payment while the VA will allow zero down to veterans, and the FAHA bases the down payment and the monthly payment on the borrower's income and ability to pay. Nice!! There are some restrictions and maximum home prices, but don't worry about it, let your lender tell you of the restrictions. The best thing is to remember the home should have a sales price less than the value established for your region - the lower the better. In the Seattle-metropolitan area the value should be less than \$235,000.

The other benefit to the Federal Government is TAXES. Every purchase of a home involves all of the parties paying taxes. The seller pays an excise tax, lenders pay taxes on loan profits, Real Estate agents pay taxes on the commissions. Buyers like you make the world go around.

#2 The State Government the nice thing about the government and being "politically correct" is that the State and the Feds compete against each other (really!). Not to be outdone by the Feds, many States have set up another layer of government that wants to give money to the "less fortunate" renters of your state. Who says competition is a bad thing?

At the State level the programs are usually targeted to specific areas &/or home buyers with an income below \$50,000 - just right for a first time home buyer like yourself. Again just like the Feds, the State usually offers special money to the local lenders or brings pressure on local lenders to lend money at favorable rates or down payments. In Washington, families with an income below \$50,000 +- can qualify for loans that require only a 1% down payment (no typo here - **1%**). US Bancorp and Bank of America are currently offering special programs. You can ask your mortgage broker or if they know nothing, contact these lenders directly. The programs have names like "State Bond Money" or "First Time Home Buyer Loan."

The nice thing about the government programs is that they allow the local lender to be more flexible. Their flexibility allows them to lend money to people who might not qualify under typical borrowing programs.

#3 Consumer Groups Because home prices are so high, Consumer Groups lobby the Government to create low income housing and help most normal people buy first time homes. The primary result of this pressure has been the creation of the programs offered by The Federal and State governments, listed above in items #1 & #2. The second result of this pressure is directed against local builders and developers. Here's how this works: When a developer wants to create a subdivision of attached (condominiums) or detached single family homes, many County Governments force the developer to include a certain number of "Special" units that are priced below all the other units in the development. The price is based on what an average income producing family, in the county, makes. Example: A formula is applied to the average income (Yearly Income x 2 = Maximum selling price). If the average income for the area is then - \$35,000 x 2 = \$70,000 as a maximum selling price for the "Special" homes or condominiums in a complex. The developer is free to sell all other units at market value but must sell a token number of "Special" units at a predetermined price and these "Special" units must be sold to first time home buyers or people with an income below average. Many times these "Special" units are sold below construction costs. The bad side of this is the developer must raise his selling price on the remaining units which in turn forces up home costs. The good side of this - you get to buy a home below market value. *This is a nice thing when you are the first time home buyer, but it sucks when you become a second or third time buyers.*

These "Special" units usually have restrictions that limit how much profit you can make &/or who you can sell the units to in the future. Because of these limits the upside potential profit from owning these homes is limited, but hey! It's a way to own a home. Also be aware that only a very limited number of these units exist and the developers don't go out of their way to advertise them so finding them is difficult for even the Real Estate Agents.

#4 Your greed. You want something and it's the American Dream that you get it. This demand or need for a home has created a segment in the Real Estate Industry designed specifically to help you achieve home ownership. Satisfying your need creates an income stream for Real Estate Agents, Lenders, Governments, and home sellers. All of them have influenced the creation of special programs offered by the government and local lenders.

#5 The lenders' greed This item more than anything else will help you obtain your dream of your first home. The bottom line with a lender is profit. Lenders' greed pushes them to work with an entity worse than any others - the bureaucratic, paper filled Government. If lenders make a loan, they have a chance to make profit. Without the loan there is no chance for profit, no matter how small. Therefore, the more loans they make the greater their chances for profit. The second biggest segment of the housing market is the first time home buyer like you. People like yourself are an opportunity for the lenders to make a large portion of their profit.

Lenders get the biggest chunk of profit when a loan is created, not from the monthly payment. In fact many lenders pawn off their loans to another firm so that they don't have to take care of receiving and accounting for your payments. However, just because the lenders like lending money, not all loan officers like dealing with first time home buyers. Many of them think you're a waste of time because the loan amount is small and therefore, their commissions are small. The trick is locating loan officers that want to deal with first time home buyers and know the programs that will help you obtain your dream.

For a complete discussion on how to get the best deal from your lender, get the reports "*Mortgage System Overview*," "*Where to Get the Best Loan*" and "*Recommended Professionals*." There are people listed that will help the first time home buyers. Trust them to help you make the right choices.

LET'S BEGIN THE PROCESS

Boy, you people have a lot of wild notions on how you should go about buying your first home! The first home is the most difficult to buy. This is a process you have never done before, they didn't teach you in high school or college and everybody you know has an opinion (usually wrong). I'm going to tell you of some of the pit falls and options, then suggest the best course of action for your needs. There are several options or different ways to buy a home plus a whole slew of different types of homes that are available. While many of these options appear viable, in reality for the first time home buyer, most of these shouldn't be considered. Some of these options are difficult to find, others involve a long multi step process and still others are disliked by the bank.

Let your **Real Estate Advisor** give you some solid time-tested advice about the simplest way to buy your first home.

OPTIONS FOR YOUR FIRST HOME

I'll start with the worst option and end with the best three for first time buyers.

1) **Building the home yourself.**

PRO : Possible lower overall costs

CON: No chance for lower overall costs, You will always spend more money then you planned, Larger down payment requirements, higher interest rates, higher loan fees, smashed fingers, tired aching backs, and a strained marriage. *Oh yea! Jump on this idea if you want to know true pain.*



This option includes the extremes of you pounding the nails, or at the other end, hiring a builder (a general contractor) to build for you. This option is complicated, drawn out, and involves many chances to screw it up and screw it up big time! Please start out small and slow (at least for the first time). But if you really want to know, keep reading.

First you have to find the lot. Since you don't have a lot of money, you will have to borrow from the bank. But banks hate, I mean downright hate, to lend money on vacant land. Because of this they usually require, a large down payment 20 to 50% of the purchase price. Ok so you ask the seller of the lot if he will carry the contract (you make payments to him and not the bank). "Sure I will but I have selling costs that amount to 10% of the selling price and then I want some money for myself." Now you're back to the 20% down payment, maybe a savings, but not much. Remember how much fun it was to locate the lot - just wait. Now you get to do it all over and select a floor plan that you and your spouse agree on - OK compromised on. I guarantee it - if you both like it, it will cost

more than you want to spend. For the sake of argument lets say you found the lot and a great floor plan, now you need to borrow enough money to build the home. The bank will want more of your money than just a little down payment that you made on the vacant lot, possibly another 10% - that's 30% total, so far.

The first question the lender is going to ask you is, what is your experience in building a home? You have none! Well then you have no chance in getting a loan from the bank. Your next best solution is to hire a builder but now you have to pay him for his labor and provide a profit. *See how fast the cost increases.* Now it's on to obtaining a building permit. Wait until you go down this path. If you haven't abandoned this idea yet, just let me tell you the **very short** version of a true life story.

In the City of Bellevue, I, an experienced builder, got a list of all the restrictions and requirements for building on a vacant lot. The architect and I sat down with city officials and went over the requirements and potential designs. The architect designed the home to fit the requirements. We submitted the plans and asked for a permit. Twenty-one months later, after four major redraws, topographical maps, surveys, and a \$10,000 permit fee, we got our permit. Two months into construction and after passing five onsite inspections, the city decided to change the rules a bit. They canceled our permit and told us to reapply for the same permit I already had in my hand, but with a completely new design that would fit the new regulations. If you think, this is ugly, for the next two years the problems got even worse. The outcome of this disaster doesn't matter. You as a first time home buyer cannot afford to go through this kind of problem and you have a good chance of finding these problems in your face. The list of potential problems from building your own home is beyond even my imagination. This path requires too much up front money, experience, time, and the ability to sit on a razor until the project is complete. So in a short summary - forget it!

The lender looks at your purchase from a stand point of - what if I get the home back in six months? Will it be finished or do I, the lender, have to hire someone to fix &/or complete unfinished items? Lenders hate owning unfinished homes and the thought of you building your own home scares most banks right out of lending you money. Therefore, as a first time home buyer and borrower, you pose a high degree of risk. The banks know it and don't like lending money to you.

2) **Buying a mobile or factory built home and placing it on a lot.**

PRO: Low cost and maybe the only choice in certain areas

CON: Fewer loan programs, possibly higher interest rates, lower appreciation (on cheaper models), possibly more maintenance, you need land to put the home on, many of the problems listed above;

Most of you have the idea that you will buy a little tract of land then go out and buy a new factory built home, sounds reasonable enough. But what I just described was two purchases and two loans, two payments, two down payments. You just doubled your troubles and had fewer options because of it. Some home manufacturers offer "all-in-one" type loans with a single down payment and monthly payment. They set these deals up with a local lender, and when this is done, it makes the whole process easier, so far so good. Now the problem - you still need a lot to place the home on. The potential problems are not as bad as building your own home, but not by much. Typically, many subdivisions will not allow this type of home to be built or moved into the neighborhood. So now you have to find the subdivisions that allow homes of this type or look for acreage. With acreage you have another layer of potential problems.

#1: Does the acreage have sewer and water or do you have to install a septic tank and well system?

#2: If you have to install a septic tank and well system, is the acreage big enough for both?

#3 If the acreage is big enough for a well system, how long will it take to get permits. In Washington this process can take up to two years.

#4 If you need to install a septic tank system, does the site perc? A Percolation (Perc.) Test is a special test performed by an engineer to determine if the soil conditions meet county standards. In other words, does water percolate down into the soil or does it sit on top?

#5 If the answer to all of the above questions is OK, then you need to have a well drilled at \$30.00 per foot, with no guarantee of when you will hit water. Systems can cost \$5,000+++.

#6 If the Perc. Test comes back OK, you will need to apply for a septic tank installation permit. The design, by the engineer plus fees will cost (in Washington/King County) \$3,000. Then you will need to contact a septic tank installer. In King County the typical installed system is costing \$15,000.

Did you count on these costs in your original calculation for the factory built home? Or is this another nasty surprise? Oh! Did I forget to tell you, you will still need a building permit for the installation of the factory built home? The bills just keep adding up so go on to the next option. For another point of view please buy the *Consumer Reports Magazine, February 1998* for a complete description of Manufactured homes.

3) **Buying a fixer upper with major problems.**

PRO: Ability to increase the market value

CON: Larger down payment is required, tougher lender requirements, complex loans with higher interest rates, higher loan costs, lenders do not like dealing with fixer-uppers.

Many people hear talk about buying a fixer upper. Buy cheap, use your sweat to fix it up and sell it in a couple of years at a profit, nice idea but not for the first time home owner. Banks want everything just right, like Goldie Locks and the Three Bears, not too hard, not too soft - but just right. That's the way they look at you and **the home you're buying**. You, as a typical first time borrower pose a high degree of risk, if a potentially troubled home is added to this problem the complexity becomes too much. The lender looks at your purchase from a stand point of - what if I get the home back in six months? Will it be finished or do I, the lender, have to hire someone to fix &/or complete unfinished items? People lose partially remodeled homes to foreclosure at a greater rate than finished homes. Lenders hate owning partially remodeled homes and the thought of you buying a fixer scares most banks right out of lending you money.



As your **Real Estate Advisor** I'm telling you, do not to buy a fixer upper as your first home. Now let me qualify that statement a little, minor repairs or improvements are OK and are downright desirable. In this category I include the need for repainting, cleaning, or new interior surfaces (carpet, vinyl, counter tops, sink or light fixtures). If a home needs anything beyond that (new roof, structural problems, major electrical or plumbing work) forget it and move onto the next level.

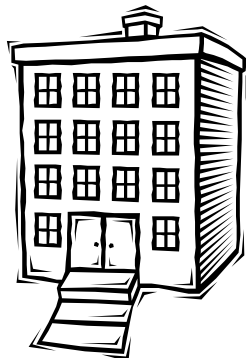
4) Buy a manufactured home already on a lot.

- PRO:** Low cost, a lot of home for the dollar.
- CON:** Potentially higher maintenance costs, possibly lower appreciation, smaller segment of the market, reduced number of lenders and loan programs, possibly higher interest rates.

There are two different markets for manufactured homes, on top of that there are different levels of quality. I'll start off explaining the different markets, then touch on the different levels of quality.

#1 Small town USA or distant low population density areas, areas that are more than 60 miles from a major city or airport. In these areas manufactured homes are sometimes the only choices for housing. Builders are few and far in between, the building season is short and delivery charges are high. Therefore, a factory built home offers a good alternative. If the majority of homes in these areas are manufactured homes, then buying one is OK.

#2 Urban centers, within 60 miles of major cities. Usually zoning laws and consumer demand limit where these homes can be placed. In these areas manufactured homes are the minority. There are some on acreage lots or in specific subdivisions. The closer you get to urban centers the lower the desirability for manufactured homes. Understand that the market in these areas has a higher demand for on site built homes. Manufactured homes have lower appreciation and slightly longer market times. So in these areas, only if you purchase a high quality home, would I consider this option.



Quality levels:

Manufactured homes come in wide variety of quality levels. I'll start off with the low end and end on a high note. Do not purchase any home built before 1976! The building codes were nonexistent and the quality was low. Banks consider these homes equal to buying a car - a high degree of risk with short term loans with high interest rates.

TIP: To determine the age of a modular/mobile home you need to locate a 3" metal tag, this tag or manufacturing strip indicates the year the home was built. If a home was built after 1976 it will have a tag that has the date stamped into it. However, if the home was built prior to 1976 it will most likely not have a tag. Tags are usually located next to the front door, at the ends of the unit or adjacent to the electrical panel. These tags are required by Federal Law for any home built after 1976.

In the middle of the quality level - are aluminum sided, flat roof single wides. These homes have higher maintenance, minimal appreciation and lower market acceptability. If it was built after 1976 then bank financing is available, but still at a slightly higher rate. These homes are ok in rural America but don't cut it in Urban centers.

High quality homes look like on-site built homes. They have wood siding, vaulted ceilings, Sheetrock walls, roof overhangs, typical quality plumbing and electrical systems. In all respects these homes look like any other home. In Rural America and Urban Centers these homes sell well. Appreciation and market demand are only slightly below on-site built homes. This is a good choice for first time home buyers.

5) Buying a condominium.

- PRO:** Low cost, is a great first step due to minimal maintenance, good amenities, close to downtown cores.
- CON:** You live close to your neighbors, sometimes really close.

If buying a home is out of your price range then this is the option for you. The term "Condominium" refers to a type of ownership, not the look of a building. A condominium is where you own your unit plus an undivided interest in the land that surrounds it and the complex. A type of partnership with

your neighbors, if you will. You own your individual unit and as a group or partnership, you own all common spaces between the units. Common spaces usually include driveways, parking areas, clubhouses, hallways and the space between the units, no matter how small. While in a single family home you own your unit (or home) plus the land that surrounds it, right up to the property line. You share nothing with your neighbors. If you need a better explanation please refer to our free report called "Glossary of Terms"

Most people equate the term Condominium with a building that was converted from an old apartment into a condominium complex. Condominiums can look like almost any other type of housing. They can be in a 50-story building, attached to the home next door or detached with a fence surrounding it. They can be rambler floor plans or a 3-story townhouses. The main difference is how and what you own, not the way it looks.

In a condominium you not only pay your mortgage company but you pay a maintenance fee to the Condominium Association. This fee usually covers the maintenance of the grounds, exterior of the unit, PLUS the water bill, sewer bill, garbage pick up, a portion of your insurance policy, and sometimes the cable TV. I used to complain about the maintenance fee, until I got my own single family home. Then instead of making one single payment I had to pay all sorts of separate bills to the Water district, Sewer District, Utility drainage District (storm water), Street lights, garbage pick up, plus a large insurance bill and my own cable TV. The combination of all of these little bills was equal to my maintenance bill at the condo. In addition I had to pay for any landscaping or exterior maintenance on the house. To this day I consider a Condominium Association Fee a nice simple payment. Besides in a few years time, I suggest you convert this home into a rental property, not only will you have an income from the Have-Nots, but the entire Association Fee becomes tax deductible. Try that on a single family home.

What to Look for in a condominium:

The first three items you should be interested in are just like any other purchase; price, location, and floor plan. You need something in your price range, in an area that fits your needs and with a floor plan that you can live with. Items like a swimming pool, clubhouse and recreational facilities are nice and if they work for you, great. However, the more stuff that's at a complex, the higher your dues are going to be. At the low end of the price range are units that are in buildings that were

converted from apartment buildings or studio units. At the middle of the price range are semidetached units that look like single family homes, while units in High-rise buildings are at the upper end of the price range. If units are built as condominiums they were usually built under stricter building codes and will have lower heating bills and less noise transmission between units.

Studio, one bedroom and two bedroom units sell the easiest while three bedroom units are unusual because the demand is low. I have found that condominium units close to apartments can have some security problems (remember the haves and have nots), so try for buildings close to other condominiums or single family homes.

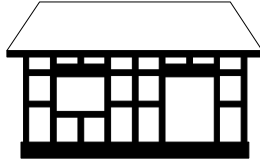
Warnings:

During your negotiations for the purchase of the unit please review documents that describe the financial health of the complex. In Washington State these are called the Condominium Disclosure Form, Resale Certificate, or Form 17 (the property disclosure form). These documents outline the amount of dues that each unit must pay, list any outstanding or unpaid dues, and any special assessments.

All condominiums need to have a reserve fund. A portion of your dues goes into this fund and are kept in reserve. If any major repair items come up, this fund is used to pay for them. This is like a bank account for a rainy day. It reduces the chances of you paying for some unusual maintenance or liability problems. Typically the bigger the reserves account, the better managed the complex. I would also suggest that you read the Condominium Declarations. These are an outline of the rules that everybody has to follow in the complex. Within these documents it will list any restrictions on the number or age limitations for occupants, restrictions on pets, the number of cars you can have or any restrictions on renting your unit to someone else. Make sure the restrictions fit your needs. Generally, I have found the more restrictive the rules, including the disallowing the renting of your unit, the better the resale value.

I understand that several of your friends have probably told you horror stories about Condo's. Sometimes they're right, but most of the time they're not. The market value for condominiums appreciates right along with single family homes, but usually at a different pace. Here is an example from the Seattle area: While the market value of single family

homes has steadily increased over the past two years, the value of condos has remained flat, but when the cost of single family homes gets too high the value of condos snaps like a rubber band and catches up with home values. Over a two-year period the values have gone up the same, just at a different times. So please don't be put off by other people's bad information, listen to your *Real Estate Advisor*, if you can't afford a single family home then please consider a condominium, you will be money ahead and far happier than waiting.



6) Have a home built for you by a builder.

PRO: You might get the house that will work for you. For the first few years, maintenance will not be a problem, the home will be more energy efficient (lower heating bills), you will be in a newer neighborhood with people like you (from your tribe), all sorts of the special loan programs might be available, and you should have better than average appreciation.

CON: Might take a little longer.

Let's clarify this a bit. First you are going to have this home built in a development where the builder already has vacant lots in his possession, developed and waiting for a new home. Because of this, the builder will likely have pre approved floor plans. Therefore, there is no waiting for building permits, which eliminates many of the major problems associated with new construction. Having a builder build a home on your lot should be avoided for the first time home buyer. As mentioned in Section #1 there are way too many potential problems. **But** going to a builder who has vacant lots, granted permits, and a pre approved floor plan ready to build is a nice way to go, if you can afford it.

One of the advantages of going into a plat of new homes is the builder already knows his cost of construction and any upgrades. To a degree you can mix and match to fit your budget. The lenders look at this as a normal purchase of a home and will allow you to get the home with a small down payment and market interest rates. There is a myriad of government programs that are available for you. Because of

this, your down payment and interest rate will be lower than average. (*A new home with a low payment, What more can you ask for?!*)

One of the side benefits that I have seen is homes in newer plats have better than average appreciation for the first five years of life. Once the builder is gone, there is no other competition, the landscaping is growing up nicely, and these homes are some of the most up to date in style and construction quality, all in all, a good choice for the first time home buyer.

7) Buy an existing home (resale).

PRO: Almost every special loan program is designed for you and this home, the fewest problems.

CON: Maybe the home that fits your budget is not in the best neighborhood.

The number one best way to buy your first home is to buy an existing home with a minimum down payment. This is the option that almost every existing government and private agency is set up for. This offers the fewest potential problems and the quickest solution with the lowest up front cost.

THE PROCESS

- 1) Locate a Real Estate agent that wants to work with first time home buyers.

DO NOT ATTEMPT TO BUY A HOME WITHOUT A REAL ESTATE AGENT! THIS IS SO IMPORTANT I'M GOING TO REPEAT - DO NOT ATTEMPT TO BUY A HOME WITHOUT AN AGENT WORKING FOR YOU!

You need to find a good Real Estate Agent. Once you find one, plan on working with this person for the rest of your life. Treat a Real Estate Agent like a family doctor and he or she will be able to make every Real Estate purchase easier and safer. Do not use two agents. Select one and stop wasting time. Two agents will duplicate many steps that will only lead to confusion.

My suggestion here is to get our reports titled *“What Makes a Good Real Estate Agent and How Do I Select One,” “How to Work Together with Your Real Estate Agent,” “Who do Real Estate Agents Work For”* and *“Recommended Professionals”*. These reports will outline what makes a good agent, who the agent works for and how much they get paid & by whom. If you don’t want to take the time to read then get our list of Recommended Professionals. These are people that I would do business with if I were in your shoes.

2) Locate a lender that wants to work with first time home buyers.

Have the lender prepare a letter that states how much of a home you’re qualified to buy (the maximum loan amount). With these first components in place you can begin your search.

My suggestion here is to get my report titled *“Mortgage System Overview”* and *“Where to Get the Best Loan.”* These reports outline different types of lenders and where to find the best loan program for your needs. If you find a good Professional Real Estate Agent, they can recommend good lenders for you to work with.

3) Work with an agent to locate a home that you want.

First tell the agent everything you **need** in a home. Then tell the agent everything you would **like to have**. Who knows maybe you’ll get lucky and get them both. Show them the letter from the lender, it will outline the price limitation that you are working under. You should be able to locate a home within 30 days or by the 15th home you have looked at. If it takes longer than that, something is wrong. Maybe it’s the wrong agent, or you are not communicating your needs, or more than likely you want more than you can afford. This isn’t the last house you’re going to live in and it doesn’t need to have every thing you want. For your first home you must compromise. Wait until the next home to be picky.

4) Have the agent write up an agreement to buy the home.

This is called an Earnest Money Agreement. It’s a written contract that outlines who you are, what you are buying, for how much and when you intend on paying the seller and moving in.

5) Go back to the lender with a copy of the Earnest Money Agreement and get a list of what else the lender wants in order to approve your loan.

The lender will fill out a “Good Faith Estimate” of your anticipated closing costs. Please understand that this is just an estimate. The final costs associated with getting a loan will vary from this estimate, but not by much.

6) The lender will order an appraisal on the property.

You know what the home is worth, the buyer knows what the home is worth, but the lender hasn’t a clue, so he needs an appraisal to report on the properties condition and value. The appraiser works for the lender, not you. The appraiser is not a building inspector and doesn’t try to inform or protect you. For that kind of loyalty you will need to hire a building inspector. I suggest that you get a copy of my report titled *“What do You Mean the Appraiser Doesn’t Work for Me?”* What the appraiser does and doesn’t do, will surprise you.

7) You should have an inspection on the property.

Your agent will know the inspectors that are right for you. The agent should suggest two inspectors for you to select from. The cost will vary from \$200 to \$500 depending on your region and the size of the house.

8) Sit back, hold your breath and wait for the lender to complete the tasks.

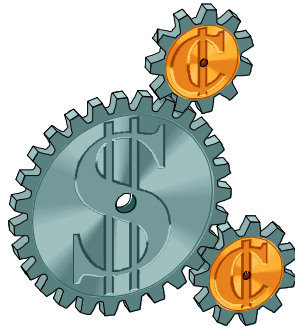
This is the point where the lender will ask for more information or clarification of money and down

payments. The loan is not approved until you get a letter that says so. Never trust a lender's **word** that the loan is approved. Demand to see it in writing! You will be surprised at how many conditions are included and how many don't want to put it in writing.

9) Close on the house.

Closing is usually three days after you have signed all of the documents and the bank has given the check to the escrow company. Closing is defined as when the documents are recorded not when you sign the documents. Usually you cannot move into the house until the final closing has taken place. Warning, the closing almost never happens when you want it to. So be patient and don't get yourself into a bind on when you have to move out of your old place and into the new. **Give your self a lot of extra time!**

THE PLAN



- 1) **Determine** how much of a home you can afford. As a general rule you can purchase a house that's 2.5 times your income. Example, if you make twenty thousand dollars a year you can buy a house for 50,000 dollars. However, once a lender has the facts about your income, they can determine exactly how much you can afford.
- 2) **In** order to buy a house it's much easier if you have some money. I suggested that you have between 5% - 9% of the sales price in the bank when you start this process. Three percent to 5% will be used toward a down payment and the remainder, approximately 4% will be used for miscellaneous closing costs (Closing costs are fees that are required by the bank to pay for their processing of the loan, appraisal fees, insurance, taxes, and escrow). Now if you don't have 9%, don't panic. You can still buy a home it will just require a little negotiating on the part of your agent and understanding of your options on your part.

OPTIONS FOR CLOSING COSTS:

- 1) Have the seller pay for all of your allowable closing costs.
- 2) Borrow the money from someone.

OPTIONS FOR DOWN PAYMENT:

- 1) Buy 3% down. It's possible for the first time home buyer.
- 2) Buy 1% down. It's possible for the first time home buyer. Some lenders in conjunction with State Governments offer special programs. This is on a Case by case basis, with no guarantee of its availability.
- 3) Buy VA. VA doesn't require a down payment for lower priced homes.
- 4) Borrow the money from your parents.

TIP: If you are going to borrow money from family or friends, make sure you borrow the money months in advance of applying for the loan, and place it in a savings account. This way when the bank looks at the balances in your bank account, it will look like you are someone who saves a lot of money. **Banks love lending money to people who have a savings account with money in it.**

- 3) **Buy** a new home, resale home or condominium. Buy as expensive of a home or condominium as you can afford. Utilize the smallest down payment possible. Since you will most likely live in it for less than seven years, select a loan that has the lowest interest rates. There is no need to obtain a 30yr fixed rate mortgage, when a five or seven-year loan will serve nicely.
- 4) **After** living in your new home for 5ish years, buy another. If possible, keep the existing home and rent it out. The rent money will pay for the mortgage payment plus you will get a good tax deduction. The nice part about this is you can buy the next home for 5% down because you are going to live in it. If you can't keep the first home and use it as a rental, then call your Real Estate agent back and have them sell it. Use the money from the sale to buy a slightly larger home. IN other words - start moving up the ladder to a larger and better home. You will never regret it.

SUMMARY

If you don't own a house, buy one, don't wait, do it now!!!! Make sure you buy a condominium, or new home or resale home.

Buy what you can afford and quit trying to find the perfect home. Buy the home that fits your needs right now, not your needs in the future. No matter what you have been told or believe, this is only a temporary place. Within a couple of years you will be able to move up to a home that suites your needs better. You need to use an agent that likes to deal with first time home buyers. How do you know if they like first time home buyers? Ask!

Keep your house hunting down to less than 30 days. The chances are the best home for your budget and needs will be found in that time period. If it takes longer, it means you have not conveyed your wants and needs to the agent, the agent is a Muddler and not a Professional, or you are being too picky. First time home buyers cannot afford to be picky. Everyday home prices go up. Do not wait until you have saved more money. Find a lender, find out how much you can afford and buy a home!

Everything will take longer than you hoped for. Do not plan on moving until at least two weeks after closing, give yourself a lot of extra time. If you find a good Professional Real Estate Agent and go through the steps one by one, buying a home can be easy and very profitable. If you listen to your *Real Estate Advisor* you shouldn't make any major mistakes and the small mistakes you might make will not hurt you, so don't be afraid - go out and buy something.

Knowledge is power and the more power you have the better your choices will be and the more money you will make. By gaining and using knowledge, you will avoid costly mistakes, save thousands of dollars, and make tens of thousands more. I've made money in Real Estate because of the knowledge I have and the things I've bought, use that knowledge to make your life richer.

Since you are just starting to learn about Real Estate and buying a home, may I strongly suggest that you scan through my list of available reports on **Real Estate Agents, Real Estate Appraisers, and Lenders**. Within these sections there are reports that will give you more knowledge. Some of the reports are free and some cost a couple of bucks.

Other Suggested Reading:

- © **What Do You Mean The Appraiser Doesn't Work For Me?**
- © **Who Has the Right Loans?**
- © **Who Do Real Estate Agents Really Work For and How Much Should They Be Paid?**
- © **What Makes a Good Real Estate Agent and How Do I Select One?**
- © **Recommended Professionals.**

